

Minutes of the Town of Foxborough Audit Committee Meeting

The meeting was held December 11th, 2009, at 8:00 AM in the Selectmen's meeting room at the Foxborough Town Hall.

In Attendance:

Voting Members: Bill Fox, Larry Harrington, Charles McAlister, Frank Souza, Brian Walton
Non-Voting Ex-officio Members: Andrew Gala, Christopher Martes, Randy Scollins

Guests: Dan Sherman, Actuary Buck Consultants; Robert Brown, Partner R.E. Brown & Company
Lisa Sinkus, Revenue Officer

The MEETING WAS CALLED TO ORDER to order at 8:00 AM.

REVIEW ACTUARIAL VALUATION OF THE POST RETIREMENT BENEFITS PLAN:

Bill asked for some context on why the actuarial analysis had been conducted and what we were about to review. Dan then reviewed in detail, to the Committee's satisfaction, the regulatory (*Government Accounting Standards Board 43 & 45 pronouncements*) and practical (*Long-Term Town Liability*) reasons why the Town needed to engage an actuary to determine the Town's liability. In summary, Government Accounting Standards now require that this liability be reported on the Town's financial statements and be updated by an actuary every two years. Failure to do so will make it not possible for the Town to receive a "clean audit" opinion on its financial statements. The first year that Foxborough will be required to disclose this liability is on its fiscal 2009 audited financial statements. Further, the Town needs to understand the full costs of retiree benefits in order to best manage the allocation of the Town's limited resources and plan for the funding of this large liability.

Dan then reviewed in detail the Actuarial Valuation of the Post Retirement Benefits Plan of the Town of Foxborough as of June 30, 2009. The report is submitted, and incorporated, as a part of these meeting minutes.

In summary, the analysis shows the Unfunded Actuarial Liability (UAL) totaling \$30.6 million under a full pre-funding assumption, or \$62.2 million under the current pay-as-you-go practice. These amounts were broken out in the full report between School \$43.5MM, Town \$17.0MM, Water \$1.3MM, and Sewer \$329K (*these breakout amounts reflect the pay-as-you-go totals*).

Dan pointed out that the common benchmark used to compare the size of one Town's UAL to another is the ratio of the UAL divided by Annual Covered Payroll. According to Dan, the Town's ratio of 104.8% on a full pre-funded basis, or 212.7% on a pay-as-you-go basis compares very favorably to other Towns. Dan stated that the norm is 150% and 300% respectively. He attributes Foxborough's favorably ratio to the less costly attributes of the health plan, including the share of premium split and the mandatory Medicare enrollment at age 65. Despite this good news, the liability is still large and should be addressed.

The unfunded liability is allowed to be amortized over 30 years. As a result, the fiscal 2009 UAL to be recorded on the Town's balance sheet is \$4.0 million. Under the current pay-as-you-go practice this reported liability will grow fairly rapidly on the balance sheet in the first several years before the rate of growth slows. The reporting of this liability will have the effect of reducing the Town's reported net assets on the balance sheet.

It was reviewed that if the Town were to establish, via a Town Meeting vote, a qualified trust, as allowed by section 479 of the 2008 Acts, and began a pre-funding schedule, then doing so would have the positive effect of reducing the UAL due to the rate of return that could be achieved in such a trust. Specifically, if the Town had pre-funded \$1.56 million in FY 2009 towards the UAL in a qualified trust, then the UAL reported on the fiscal 2009 balance would be zero, instead of the \$4.0MM liability that will have to be booked.

The Committee discussed the difficulties in allocating such a large sum of funds for such purposes given the financial challenges to just maintain current service levels in the Town.

As an example of how small steps can start a process that yields positive results, Dan shared the Town of Needham's approach to their UAL. Needham started several years ago with a relatively modest pre-funding amount of a few hundred thousand dollars and then added slightly to that amount annually. As a result that has now put the town in excellent financial position with regard to the amount of their UAL. The town also negotiated some benefit concessions.

The discussion then turned to the cost side of the Town's employee and retiree health benefits to explore what could be done on the cost side of the equation to reduce the long-term liability.

Cost savings elements in effect now were reviewed by Randy, including:

- 1) 70% Town / 30% Employee and 50% Town / 50% Retiree share of health premium;
- 2) Mandatory Medicare enrollment at age 65 if retired;
- 3) 100% Survivor share upon retiree death.

Several additional cost savings ideas were presented by Randy for consideration and discussed briefly by the Committee. Other cost savings ideas were also put forward by Larry and Chris.

It was resolved that the Committee would meet again soon to have a focused discussion on all of the cost savings ideas so that a recommendation could be made to the Board of Selectmen on how to reduce the UAL.

Larry made several additional points including the following:

- The employee group total UAL amounts should be broken down to per employee amounts so that it is clear what the additional funding commitments are that the Town is making for employees, beyond current year appropriated compensation and benefits amounts.
- These amounts are relevant, they should be transparent to all, and should be incorporated into collective bargaining negotiations.
- The annual pre-funding cost should be added to the "fixed costs" annual budget presentation so that it is a consideration in the budget process.

It was resolved that the Committee should meet once more prior to presenting the Actuarial Report to the Board of Selectmen in order to finalize what would be presented to them and by whom.

The MEETING MINUTES from the Audit Committee meeting held on July 28th, 2009, were reviewed. Charlie made a motion to accept, Brian seconded the motion and they were accepted by a vote of 4-0-0.

Charlie motioned to ADJOURN the meeting, Bill seconded, and the meeting was adjourned at approximately 9:30 AM by a vote of 4-0-0.

Meeting minutes were accepted by the Committee on 1/15/10, by a vote of 4-0-0.